United Nations DP/FPA/2016/7/Add.1

Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

Distr.: General
7 April 2016

Original: English

Annual session 2016
6 to10 June 2016, New York
Item 14 of the provisional agenda
UNFPA – Internal audit and investigation

United Nations Population Fund

Addendum

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16-05740 (E) 120416

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Annual report of the Audit Advisory Committee

United Nations Population Fund
Audit Advisory Committee
2015 annual report to the Executive Director

I. Purpose

1. This report is addressed to the Executive Director of UNFPA, and provides a summary of the activities and advice of the Audit Advisory Committee ("the Committee") of UNFPA during 2015. It is written pursuant to item 14 of its terms of reference, and in accordance with paragraph 25 (c) of section IV, subsection I of the UNFPA revised oversight policy.

II. Audit Advisory Committee activities in 2015

2. *Members of the Audit Advisory Committee*. Committee members are appointed for three years, renewable once. The appointments are staggered to provide continuity of service. Committee members possess expertise in risk management, internal control, oversight, governance, financial management and reporting, evaluation and development and programme matters. The members of the Committee in 2015 were Ms. Berlina Mxakwe (South Africa), Ms. Mary Ann Wyrsch (USA), Mr. Verasak Liengsririwat (Thailand), Mr. Peter Maertens (the Netherlands) and Mr. Jose Urriza (Argentina). All Committee members are external to UNFPA, and are independent of its management.

3. *Meetings*. The Committee held four meetings in 2015: one by teleconference (January), followed by three in-person meetings (April, June, and October). Individuals invited to relevant sections of the in-person meetings included, among others, the two Deputy Executive Directors; programme and operational senior management; the Director, Office of Audit and Investigation Services (OAIS); the Director, Evaluation Office; the Director, Division Management Services; the Ethics Adviser; and the representatives of the Board of Auditors. The Committee also had private meetings with the Director, OAIS; the Director, Evaluation Office; the Ethics Adviser; and representatives of the Board of Auditors. Mr. Liengsririwat, as the Chairman of the Committee, participated in the annual session 2015 of the UNDP/UNFPA/UNOPS Executive Board during its consideration of UNFPA audit and investigation activities. In addition to the formal Committee meetings, the members held consultations and deliberations among themselves, reviewed documents, and provided advice to UNFPA management via telephone and e-mail.

4. *Field visits*. To augment the Committee's understanding of the mission of UNFPA and its operations, the Committee members visited regional and country offices from time to time. The Committee undertook two separate field visits in 2015, one to the Eastern Europe and Central Asia Regional Office (EECARO) in Istanbul, Turkey, including the Country Office in Uzbekistan, another one to the Country Office in the Dominican Republic.

5. *Reporting*. The Committee prepared minutes for each of its meetings, provided advice based on the deliberations, and briefed the Executive Director on the outcome of the meetings either in person or by teleconference.

6. *Recommendations*. The Committee made recommendations and suggestions to UNFPA management during its meetings and followed up on the implementation thereof.

7. *Annual assessment of the effectiveness of the Committee*. The Committee did an annual self-assessment to confirm the appropriateness of its terms of reference and to assess its effectiveness. The Committee completed the 2015 self-assessment exercise and will report the results of the self-assessment to the Executive Director in early 2016.

III. Summary of the advice of the Audit Advisory Committee to UNFPA management in 2015

8. Issues identified by the Committee and the advice provided to the Executive Director and UNFPA senior management in 2015, are summarized below.

9. *Financial Statements and Reporting*. The Committee reviewed the draft UNFPA Financial Statements and Reporting for the year ended 31 December 2014, prepared by the Division for Management Services (DMS) in accordance with the International Public Sector Accounting Standards (IPSAS). The Committee noted these were prepared in a professional manner with notable improvements in their presentation when compared with prior years. The Committee would like to note its appreciation for the assistance provided by the Internal Audit Branch of OAIS and the Finance Branch of DMS in its review process. On the basis of its review, the Committee advised the Executive Director to forward the financial statements to the Board of Auditors for the annual audit.

10. *Funding Situation*. UNFPA in 2015 was affected by the exchange rate fluctuation resulting from the strength of the US dollar against other currencies. To close the 2015 budget gap, two stages of austerity measures were taken by the organization. The Committee understands that further measures are to be made in 2016 to adapt to new levels of funding. The measures taken will influence the level of risks associated with the organization.

11. *Policy review*. In accordance with its terms of reference, the Committee reviews policies that significantly impact (a) financial management and reporting; (b) internal audit, investigation and evaluation functions; and (c) effectiveness of the UNFPA system of internal controls and accountability. The Committee reviewed the progress made and experience gained from the roll-out of the revised framework for the harmonized approach to cash transfers on a pilot basis in nine selected countries and provided its views thereon; other policies were reviewed and are elaborated hereafter.

12. *Internal control framework*. The Division for Management Services and the Programme Division in 2015 started to implement a project to update and expand the UNFPA internal control framework (ICF) for ensuring compliance with 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) and integrating programmatic and operational business processes and control into the framework. Other objectives of this project included improvement of the business process through streamlining and enhancing procedures, where necessary. The approach utilized in the project involved assessing various policies and procedures for their relevance and revising the policy documents where appropriate. This was done with the aid of tools such as process flow charting, developing control matrices and documenting the risks. The Committee was further informed that the ICF link to enterprise risk management system is articulated in the risk control matrix documentation.

13. The Committee notes UNFPA is making efforts to include the programmatic and operational business processes and control into the ICF. The Committee has advised that care should be taken to ensure all the COSO components and related principles are implemented and that there should be a clear linkage with the 'Three Lines of Defense'.[1] This effort is still a work in progress.

14. The Committee also notes the actions taken by UNFPA to enhance its procurement practices and improve the effectiveness and adequacy of related controls. This was done through new procurement manuals, better use of technology to improve visibility over the procurement cycle, and compulsory training to improve the competency of procurement staff leading to certification on procurement.

[1] See the Institute of Internal Auditors position paper, The Three Lines of Defense in Effective Risk Management and Control (January 2013).

15. *Enterprise risk management*. UNFPA has made progress to establish an enterprise risk management (ERM) system following a report issued by a consulting firm in 2014. Strategic risks were identified and assessed, and mitigating responses were formulated. As a result, 11 strategic risk areas are now grouped into four clusters, plus fraud risk; these are to be addressed by designated risk owners and staff from offices closely linked to these risks.

16. The Committee acknowledged that there was positive progress on ERM; however, there is still work to be done in relation to (a) clearly defining the roles and responsibilities for the overall risk management process, including the Risk Committee; (b) identifying other risk types other than the strategic risk; (c) documenting risk classifications; and (d) identifying actions to be taken to address risk, which would lead to the development of an accountability framework.

17. *Accountability Framework*. UNFPA is accountable for its results at three levels:

(a) *Impact shared*. It is accountable for monitoring global trends; reporting on goals and contributions to the development goals; and identifying any gaps that may exist;

(b) *Shared outcomes*. It is accountable for monitoring outcome indicators; and reporting on shared outcomes; and

(c) *Outputs*. It is accountable for achieving outputs; ensuring outputs contribute to outcomes; monitoring and reporting on outputs; ensuring a national system is in place to monitor and report on results; and ensuring financial controls.

18. The Accountability Framework of UNFPA and its policy was written and presented to the Board at its regular second session in 2007. Although the key elements of the Framework have not changed much since it was adopted, many of the procedures and processes behind the policy have been updated and modernized in order to adapt to the current operational environment. The Sustainable Development Goals, approved by the United Nations General Assembly in September 2015, have an impact on the goals and outcomes of the UNFPA strategic plan, 2014-2017. Therefore, the Committee suggested that UNFPA revisit and update its accountability framework.

19. *Audit Monitoring Committee*. Audit findings and recommendations are managed in UNFPA through the Audit Monitoring Committee chaired by the Executive Director. Additionally, the Audit Monitoring Committee has continued to play a proactive role for reducing the number of outstanding recommendations both from the Board of Auditors and OAIS.

20. *Information and Communication Technology*. The Committee was briefed on the implementation of the Information and Communication Technology (ICT) Strategy for 2014-2017, as well as the ICT security measures in place and the implementation status of ICT-related internal audit recommendations.

21. The ICT strategy consists of a series of projects to be done during the upcoming period. These are classified into various categories, such as events related to the operations of the platforms, introduction of specific applications and support given to the operational services. The Committee noted a lack of integration and a proliferation of separate systems, and observed that UNFPA needs to have procedures in place to deal with the rapidly changing ICT environment, particularly in light of threats that may affect its ICT operations. This would include a vision for the use of social media. The Committee recommends that the ICT strategy should contain these elements.

22. The Committee met with the ICT security team and was briefed on its ICT security policy including the changing landscape and challenges that exists today. The Committee took note of the qualified and professional staff overseeing this area. UNFPA, like most multilateral organizations, faces a continuing number of external threats from malicious programmes trying to infiltrate its system. These are monitored and counteracted through a variety of techniques such as firewalls and the way in which the ICT infrastructure is set up. As a result, there has not

been a major security incident since 2006. The ICT security has benefitted from an IT risk assessment review carried out by OAIS. While these elements are positive, the Committee suggests that an external intrusion and security review be done at least once every three years to ensure that this highly vulnerable area – that is constantly changing and subject to new risks – continues to be managed according to best practices that address the latest and evolving ICT risks. This also offers an opportunity to develop a vision for the use of social media and enhanced methods to handle cyber security threats and incidents.

23. There were seven outstanding recommendations related to the ICT at the end of 2015; four were considered 'high priority' and three 'medium priority'. All seven recommendations were outstanding longer than 18 months.

IV. Summary of Audit Advisory Committee advice related to the Evaluation Office and the Office of Audit and Investigation Services

24. In accordance with item 16 of its terms of reference, the Committee regularly reviews the evaluation function, as well as the audit and investigation functions of OAIS – including review of their charter, scope, plans, activities, resources, staffing and organizational structure.

A. Evaluation Office

25. In each of its meetings, the Committee was briefed by the Director of the Evaluation Office on the status of its 2014-2015 workplan, which was approved at the first regular session of the Executive Board in January 2014. The Committee is satisfied with the achievement of the Evaluation Office and its progress in addressing two challenges mentioned in the 2014 annual evaluation report: improving the quality of country programme evaluations; and strengthening evaluation follow-up. These two areas represent important long-term goals for improving UNFPA programme planning and design, as well as the achievement of results.

26. The quality ratings of the country programme evaluations reports improved during 2015. This may reflect a more realistic rating methodology and a number of measures taken by the Evaluation Office. These measures included reviewing and approving terms of references for country programme evaluations, providing assistance to preselect and identify evaluation teams, and working closely with the respective Regional Monitoring and Evaluation Officers in the planning and execution processes of country programme evaluations.

27. In 2011, UNFPA launched a management response tracking system, which is linked to the Evaluation database and connects management responses to recommendations and the respective evaluation reports. It is a self-reporting system and provides an aggregation function to determine progress on overall implementation of evaluation recommendations.

28. The Committee was consulted regarding the proposed quadrennial evaluation plan for 2016-2019 prior to its submission to the Executive Board. The Committee took note of the approval of evaluation plan at the 2015 second regular session of the Executive Board, which expressed its appreciation on the comprehensiveness of the plan and its support for the work and approach of the Evaluation Office.

B. Office of Audit and Investigation Services (OAIS)

29. The Executive Director approved the revised Charter of OAIS on 17 July 2014, which was in line with the standards and best practices in internal audit and investigation functions. It gives a new name to the Office to reflect the separation of the evaluation function.

Internal audit

30. The Committee recommended to the Executive Director to approve the 2015 internal audit plan, which is consistent with the rolling audit plan, 2015-2018 and aligned with the business needs of UNFPA. The internal audit plan is based on an updated audit risk assessment that was undertaken during the last quarter of each year.

31. During the review of the proposed 2015 Internal Audit plan, the Committee advised the Office to complete the outstanding work from prior years and to set aside resources to address contingencies and meet unplanned demands like advisory services. In view of the available resources and the aim to increase audit coverage, the Committee advised OAIS and operational management to reflect on their own working methods of the audit cycle, including individual audit planning; performing the audit; drafting audit report; management response to the audit findings and recommendations; and finalizing audit reports. Improvements in these areas can increase the number of completed audit engagements and timeliness in issuance of audit reports.

32. The Committee was informed in its October 2015 meeting that a continuous auditing tool has been developed and tested with positive result. As mentioned in our previous report, the result of this initiative would enable the Office to provide better audit coverage of low and eventually medium risk areas and provide the necessary analytical trends and data for proactive investigation. The Committee is encouraged by this development and will continue to monitor the effective use of this initiative.

Investigations

33. The Committee reviewed the activities and results of the UNFPA investigation function, which forms part of OAIS. The situation since the last report has not changed significantly. The complexity of the investigative work continues to require a re-profiling of positions, to a higher level of professional staff in the investigation function. In this respect the Committee appreciates the action taken by the Executive Director in approving the reclassification of one position to a higher level.

34. The caseload, which is the number of cases worked on during the year, increased from 42 cases in 2012 to 115 cases in 2015. There were 52 open cases at year-end, compared to 44 in 2014 and 34 in 2013. As reported in the 2014 annual report of the Audit Advisory Committee, the open cases are at a non-acceptable level, which may result in the possibility of a substantial reputational risk that can have many consequences, including concerns of donors who provide extra budgetary funding for projects in the field. Retaliation complaints, which take longer time to complete or close, create an additional challenge for OAIS, due to their time-bound requirement.

Advisory services

35. OAIS attends management meetings and provides advice to UNFPA on specific matters. The Committee was informed that due to resource constraints, the number of advisory engagements in 2015 were limited to the most critical ones. The Committee would like to reiterate its encouragement to extend the discussion on the trade-off between risk appetite, audit coverage and investigation caseload. These should have a higher priority compared to the demand for advisory services and activities done in the context of peer organizations.

Reporting

36. *Report of the Director, OAIS, to the Executive Board on internal audit and investigation activities*. The Committee noted the content of the Report of the Director, OAIS, on UNFPA internal audit and investigation activities in 2015 (DP/FPA/2016/7), and it will be submitted to the Executive Board at its annual session 2016.

37. *Public disclosure of internal audit reports*. In accordance with Executive Board decision 2012/18, all internal audit reports issued by OAIS since 1 December 2012 are publicly disclosed

on the UNFPA website. This usually occurs one month after the reports have been issued internally or after a reasonable time, to allow for consultations with the governments of the Member States concerned. The Committee notes that all reports issued in 2015 were publicly disclosed.

V. United Nations Board of Auditors

38. The Audit Advisory Committee meets regularly with the Board of Auditors to:

(a) Discuss the workplans of the Board of Auditors;

(b) Review relevant reports and management letters issued by the Board of Auditors, including reports on UNFPA financial statements and its related notes;

(c) Discuss internal controls and matters raised by the Board of Auditors; and

(d) Review the adequacy of management response to the observations and recommendations of the Board of Auditors and assess the status of implementation.

39. The Committee noted the issues raised in the Report of the Board of Auditors on the UNFPA financial report and audited financial statements for the year ending 31 December 2014. Of the 22 recommendations made for the year 2013 and previous years, 12 had been fully implemented and the remainder were under implementation. For 2014, 7 out of 10 recommendations have been implemented or closure has been requested.[2] This represents the continued efforts by senior management to resolve issues and implement the agreed recommendations from the Board of Auditors.

VI. UNFPA Ethics Office

40. In its October 2015 meeting, the Committee had a private meeting with the UNFPA Ethics Adviser. The Committee supports the ethics function in UNFPA, which fosters a culture of integrity and accountability. The Committee notes the continuous support and importance placed on the ethics function by the Executive Director and the senior management of UNFPA.

VII. Conclusion

41. In relation to the UNFPA funding situation, a further shortfall of funds is expected during 2016 and long-term measures are being considered to enable the organization to adapt to the new financing environment. The measures taken will influence the level of risks associated with the organization.

42. Areas that require further development and attention include:

(a) Further developing of the enterprise risk management and the linkage between ERM, internal control and accountability frameworks;

(b) Addressing some risks related to information and communication technology, including ICT governance and its strategy;

(c) Reviewing and agreeing on an acceptable level (in terms of years) of internal audit coverage for high and medium-risk areas; and

(d) Timely completion and issuing of Internal Audit reports in accordance with the approved plan.

43. During 2016 the Committee will continue to pursue the issues identified in this report as well as other issues within its mandate.

[2] As represented to the Executive Board at its 2016 first regular session – DP/FPA/2016/1 referred.

44. The Committee wishes to thank the Executive Director, the Deputy Executive Directors and senior staff, the staff of OAIS and of the Evaluation Office, the Board of Auditors and other UNFPA management and staff who participated actively in the Committee's activities and cooperated with the Committee in discharging its responsibilities.